

VZCZCXRO2030  
PP RUEHAG RUEHDF RUEHIK RUEHLN RUEHLZ RUEHPOD RUEHROV RUEHSR RUEHVK  
RUEHYG  
DE RUEHMO #3563/01 3441503  
ZNR UUUUU ZZH  
P 091503Z DEC 08  
FM AMEMBASSY MOSCOW  
TO RUEHC/SECSTATE WASHDC PRIORITY 1063  
INFO RUCNMEM/EU MEMBER STATES COLLECTIVE PRIORITY  
RUEHDX/MOSCOW POLITICAL COLLECTIVE PRIORITY  
RUCPDO/DEPT OF COMMERCE WASHDC PRIORITY  
RHEHNSC/NSC WASHDC PRIORITY  
RUEHRC/DEPT OF AGRICULTURE WASHDC PRIORITY  
RHEHAAA/WHITE HOUSE WASHDC PRIORITY

UNCLAS SECTION 01 OF 02 MOSCOW 003563

SENSITIVE  
SIPDIS

DEPARTMENT FOR EUR/RUS AND EEB/TPP/MTAA (BRIAN NAFZIGER)  
STATE PLS PASS USDA/FAS FOR OCRA (FLEMINGS, KUYPERS) AND  
ONA (SALLYARDS, MURPHY)  
COMMERCE FOR MAC (MATT EDWARDS, JAY THOMPSON)  
STATE PLS PASS USTR (CARA MORROW, CECILIA KLEIN, ELIZABETH  
HAFNER)

E.O. 12958: N/A  
TAGS: [ETRD](#) [EFIN](#) [EINV](#) [ECON](#) [RS](#)  
SUBJECT: G20 DEMARCHE: RUSSIA IS CONSIDERING "SOME"  
PROTECTIONIST MEASURES

REF: STATE 125609

THIS CABLE IS SENSITIVE BUT UNCLASSIFIED. NOT FOR  
DISTRIBUTION OUTSIDE USG CHANNELS OR FOR POSTING ON THE  
INTERNET.

-----  
SUMMARY  
-----

¶1. (SBU) In response to subject demarche Andrey Kushnirenko, Deputy Director of the Economic Development Ministry's Trade Negotiations Department, told us December 4 that Russia will make decisions related to duty increases based on "all relevant factors." He acknowledged that Russia had committed to refrain from raising trade barriers in the G20 Declaration, but said raising duties was justifiable in certain limited and special circumstances. In that regard, he said the GOR was currently considering duty increases on imported automobiles and might seek to reopen U.S.-Russia side letters and impose higher tariffs on harvesters and aircraft. In a separate meeting, MFA officials told us in response to the demarche that Russia was disappointed with the pace of WTO accession and protectionist voices within the GOR were consequently growing louder. END SUMMARY.

-----  
MED: Protectionism OK in Special Cases--Like Cars  
-----

¶2. (SBU) EconOffs conveyed reftel demarche regarding the G20 commitment to refrain from protectionist measures to Andrey Kushnirenko, Deputy Director in the Economic Development Minister's Trade Negotiations Department. Kushnirenko acknowledged Russia's commitment at the G20 Financial Summit and agreed with the general proposition that the erection of trade barriers was ineffective.

¶3. (SBU) However, Kushnirenko insisted that some countries, including Russia, should be allowed to use measures to protect vulnerable domestic industries in certain "special cases." He emphasized that Russian decisions would be taken on the basis of "all relevant factors," which include the global financial crisis and declining import trends, as well as Russia's G20 and APEC commitments, but which also include the needs of Russian industries.

14. (SBU) In that regard, Kushnirenko confirmed that, in November, the Commission on Special Protective Measures in External Trade and Customs and Tariff Policy, chaired by First DPM Zubkov, had recommended an increase in the duties on imported automobiles from the current rate of 25% to a higher rate of 30%. He noted that the Commission had also recommended creating a stricter limit on older vehicles (i.e., applying a prohibitive duty to all cars older than five years, instead of the current regime, which applies prohibitive duties to cars older than seven years).

15. (SBU) Kushnirenko stated, however, that the GOR had not yet decided whether to go ahead with the duty increase on cars. He said the monthly import data showed that car imports were slowing; car imports rose by 22% in September 2008 compared to September 2007, but increased by 5.7% in October 2008 compared to October 2007 and were projected to be flat in November and perhaps even show a decline in December. Given the slow-down in imports, he said, the case for increasing the duty seemed less strong than when the Commission had made its original recommendation.

16. (SBU) Kushnirenko added that, despite the potential for duty increases in certain special cases, Russia was lowering duties on many other products. For instance, the same commission meeting that recommended increasing automobile duties had recommended eliminating all duties on imported buses and trucks.

-----  
Bilateral Commitments with the U.S.--Harvesters

MOSCOW 00003563 002 OF 002

-----  
17. (SBU) Kushnirenko said the GOR was also still reviewing some of the commitments Russia had agreed to make in advance of WTO accession, which might be having a "negative economic effect" on certain Russian industries, as PM Putin had stated in late August. Kushnirenko noted that the U.S.-Russian November 2006 bilateral side letters on aircraft and on harvesters might have to be modified, based on that review, potentially leading to higher duties.

18. (SBU) Kushnirenko declined to elaborate further on aircraft but did discuss the harvester issue in more detail, confirming that Zubkov's commission would also be meeting on December 4 to consider an increase in the duties on combine harvesters. He noted that the main domestic producer, Rostselmash, was in financial difficulty, had laid off 1,300 workers in October and November, and had cut its planned 2009 production output from 7,100 harvesters to 4,300. He also claimed that EU producers, including John Deere's European production facilities, were heavily subsidized.

19. (SBU) In this situation, Kushnirenko said, it was natural for the domestic producers to ask for protection from the government. We pointed out that raising the cost of harvesters through increased duties would have a negative impact on the price of Russian grains and on Russia's ability to bring in the estimated record crop levels. Kushnirenko responded that the Russian government would take all factors into account and that perhaps the harvester's side letter might need to be modified to provide a higher duty only for harvesters with a capacity of 100-200 kilowatts, a range where Kushnirenko said that the domestic industry might need greater protection from imports.

110. (SBU) Kushnirenko said he would let us know whether Russia would seek to reopen the bilateral agreement once the Russian intergovernmental review was complete. (NOTE: Following our meeting, Zubkov's commission did recommend an increase in the duty rate on combine harvesters, from the current 5% ad valorem rate, to a rate not less than 75 Euros per kilowatt for most harvesters.)

-----  
MFA: WTO Sacrifices Without Benefits  
-----

¶11. (SBU) In a separate meeting on December 4, MFA North America Department Deputy Director Nikolay Smirnov told us in response to the demarche that Russia had made "sacrifices" to get into the WTO, but so far had not reaped any of the benefits, since the accession process had gone more slowly than Russian officials had expected. Andrey Krutskikh from the MFA's Department of Security, Technology and Disarmament Affairs, added that as a result the protectionist voices within the government were growing stronger. However, both he and Smirnov said liberal economic and free trade policies remained the view of "the bosses."

-----  
COMMENT  
-----

¶12. (SBU) In the current economic environment, domestic economic factors, especially the complaints of politically connected industries such as agriculture, are likely to carry more weight with Russian decision makers than international commitments. That said, while the GOR believes it is negotiating from a position of strength on trade issues, it is likely committed long-term to WTO accession and to freer trade. Protectionist forces are therefore unlikely to get everything they want even as they complicate Russia's trade relations in the near-term.  
BEYRLE